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## INTELLIGENCE BRIEF

SOVIET WHEAT FOR THE UAR

DIRECTORATE OF INTELLIGENCE  
Office of Research and Reports

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SOVIET WHEAT FOR THE UAR

The USSR has agreed to provide 300,000 metric tons (mt) of wheat to the United Arab Republic (UAR). Both the timing and the nature of the announcement have served to attract a great deal of favorable publicity in Cairo and to divert attention from the recent US agreement to release 410,000 mt under P. L. 480. Wheat from the US and the USSR will relieve a shortage that had threatened to become critical, and Egyptian requirements through November will now be met with little immediate outlay of hard currency. Neither arrangement provides a long-term solution to the UAR's continuing requirements, however, and purchases from other sources will be costly. Egyptian officials recently have negotiated options or contracts for a total of 800,000 mt of wheat from Argentina, Australia, and Mexico. Deliveries under these three agreements would cost about \$55 million, payable over a period of 12 to 18 months in hard currency or exports. The UAR probably will postpone such outlays as long as possible, awaiting developments in US policy on future aid.

1. Background

On 24 June the Cairo press announced with considerable fanfare that ships carrying wheat from Canada to the USSR were being diverted immediately to Alexandria and that the USSR intended to provide 300,000 mt of wheat to the UAR. This dramatic announcement completely overshadowed the release on 22 June by the US of \$37 million worth of wheat and other foods under P. L. 480. The US decision was not mentioned by Cairo news media until 26 June, following the announcement of an agreement to purchase wheat from Mexico. The first Soviet ship carrying wheat arrived on 27 June; the initial shipment of the newly authorized US wheat cannot arrive until the end of July at the earliest. Cairo's first account of the Soviet transaction emphasized that the wheat was needed to "foil strong pressure on the part of the US Congress" and to provide for an unexpected increase in consumption. Evidence indicates, however, that the wheat supply situation in the UAR was not immediately critical and that the emergency diversion of Soviet ships was not imperative. In recent negotiations with Argentina, Egyptian trade officials stated that late summer deliveries would be satisfactory, and the subsequent release of US wheat and flour probably shifted the critical point to some time in October.

## 2. Wheat Supply Situation in the UAR

Wheat and flour imported by the UAR, almost all of which is consumed in the cities, satisfies about 90 percent of the country's urban bread requirements. In 1964, monthly urban requirements for wheat\* averaged about 190,000 mt; with the Egyptian population continuing to increase, some further small rise in wheat needs probably has occurred. At the beginning of 1965 the Ministry of Supply reportedly had about 165,000 mt in stock for urban distribution. During the first quarter of the year, imports totaled 340,000 mt, all from the US and West Europe; the second-quarter aggregate, excluding the Soviet shipments, probably was between 600,000 and 650,000 mt. At a monthly rate of 190,000 mt, consumption from January through June 1965 would total 1.14 million mt -- about equal to the total amount available from stocks and imports. The immediate pressure, however, probably was relieved by the domestic harvest in May and June. The new crop will provide about 300,000 mt of wheat for the cities, some 170,000 mt of which probably arrived by the end of June. Unless the normal pattern of distribution of the domestic crop has been disrupted or contracted imports have failed to materialize, the immediate situation, therefore, apparently is not critical. The probable supply position as of 1 July, excluding Soviet deliveries, is shown in Table 1.

In early June the emergence of serious shortages by August appeared likely. Anticipated additions to supply in July and August totaled about 200,000 mt (130,000 mt from domestic sources and 70,000 mt from France under an existing commitment). Thus only 360,000 mt (200,000 mt of new supply plus 160,000 mt in stocks) would be available, while normal consumption would require 380,000 mt in the 2-month period.

Despite strenuous efforts, no acceptable alternative to P. L. 480 had been found, although Nasser and other senior Egyptians had stated several times that they did not expect US shipments to continue. For the past few months, trade teams have been negotiating with Australia, Argentina, and other countries for large amounts of wheat under long-term credit. Australia agreed only to sell 100,000 mt under a short-term suppliers credit, but no purchases had been concluded as of early June. UAR officials apparently settled for an option to buy 300,000 mt from Argentina during the next 6 months under normal commercial credit terms.

\* Including wheat flour converted into its wheat equivalent at the rate of 1 mt of flour to 1.389 mt of wheat

Table 1

Estimated Wheat Availability in the Urban Centers of the UAR  
January-June 1965

	Thousand Metric Tons
Supply on hand (1 Jan 65)	165
Imports (Jan-Mar 65)	340
Imports (Apr-Jun 65)	625
Available from domestic sources (May and Jun)	170
Total additions to supply (Jan-Jun 65)	1,135
Total availability (Jan-Jun 65)	1,300
Total consumption (Jan-Jun 65) <u>a/</u>	1,140
Indicated supply (1 Jul 65)	<u>160</u>

a. At the rate of 190,000 mt per month.

Nasser used the opportunity presented by the visit of Soviet Deputy Premier Novikov in early June to make a personal plea for emergency wheat assistance. Despite the fact that the USSR was itself continuing to import wheat, it agreed to provide the grain as requested, and approval was conveyed to Nasser in a personal letter from Soviet Premier Kosygin. Moscow's decision to acquiesce preceded the announcement of US intention to ship \$37 million worth of food, including about 410,000 mt of wheat, but the Soviet agreement was not made public for several days.

### 3. Financing of Recent Wheat Purchases

Financial conditions governing the arrangement with the USSR have not been announced, but the cost of both the wheat and the shipping charges apparently can be handled under existing trade and payments agreements without any immediate impact on the UAR's foreign exchange position. The first ships to arrive were actually loaded in Australia rather than Canada. Australian wheat sells for about \$58 per ton, and the going price for Canadian wheat is \$66 per ton. The Soviet wheat package, therefore, is worth \$17 million to \$20 million, plus shipping charges. Inasmuch as much of the wheat for the USSR is carried in Soviet bottoms, however, the shipping charges probably will be handled as a debit on the trade account.

As of 1 January 1965 the UAR already owed the USSR the Egyptian pound equivalent of \$50 million under a swing credit on their trade and payments agreement; the USSR expected the total swing credit to increase to about \$190 million by 1970, as Egyptian obligations (imports plus debt repayments) continue to mount faster than exports can be increased. With the USSR apparently not anxious to press for repayment in hard currency, at least at present, the net effect of financing the wheat transactions under the trade agreement would be to add about \$21 million to \$22 million to the Egyptian debt, payable to the USSR in Egyptian pounds -- \$17 million to \$20 million of which the USSR must pay to Canada and Australia in sterling.

The combined shipments from the US and the USSR probably will provide enough wheat to satisfy requirements until about the end of November or mid-December and will necessitate little cash outlay. Wheat for future needs, however, is available from other countries only under fairly stringent terms. Acquisition of the full 400,000 mt purportedly purchased from Mexico would cover requirements for more than 2 months, and a similar period could be covered by exercising options in Australia and Argentina. Full implementation of existing agreements thus could cover normal consumption through the first quarter of 1966 (see Table 2). The cost, however, would be high; at the most recent quoted prices for each source of supply, the total price of the agreements with Australia, Argentina, and Mexico would be about \$46 million plus about \$9 million in shipping costs. The UAR thus would be required to pay some \$55 million within an 18-month period in either hard currency or goods, and it probably will postpone commitments for such outlays as long as possible in the hope of a new P. L. 480 agreement with the US.

Table 2  
UAR Wheat Agreements with Argentina, Australia, and Mexico

Source	Quantity (Metric Tons)	Cost		Shipping Cost		Total Delivered Cost (Million Dollars)	Repayment Period (Months)
		Approximate Price (Dollars per Ton)	Total (Million Dollars)	Approximate Price (Dollars per Ton)	Total (Million Dollars)		
Argentina	300,000	54	16.2	11.0	3.3	19.5	18
Australia	100,000	58	5.8	11.0	1.1	6.9	12
Mexico	400,000	61	24.4	10.5	4.2	28.6	18
Total	800,000		46.4		8.6	55.0	

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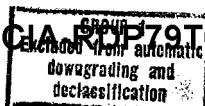
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